



KPMG LLP  
2001 M Street, NW  
Washington, DC 20036

## **Independent Auditors' Report on Internal Control Over Financial Reporting**

To the Director  
of the Court Services and Offender and Supervision Agency:

We have audited the consolidated balance sheet of the Court Services and Offender and Supervision Agency (CSOSA) as of September 30, 2005, and the related statement of net cost, changes in net position, and financing, and the combined statement of budgetary resources (hereinafter referred to as consolidated financial statements) for the year then ended, and have issued our report thereon dated July 15, 2008. Our report was modified to indicate that these consolidated financial statements have been restated.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

The management of CSOSA is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2005 audit, we considered CSOSA's internal control over financial reporting by obtaining an understanding of CSOSA's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act* of 1982. The objective of our audit was not to provide an opinion on CSOSA's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect CSOSA's ability to record, process, summarize, and report financial data consistent with the assertions by management in the consolidated financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud, in amounts that would be material in relation to the consolidated financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in any internal control, misstatements due to error or fraud may nevertheless occur and not be detected.



In our fiscal year 2005 audit, we noted certain matters, described in Exhibits I and II, involving internal control over financial reporting and its operation that we consider to be reportable conditions. Of the reportable conditions described in Exhibits I and II, we consider the matters described in Exhibit I to be material weaknesses. Exhibit III presents the status of prior year reportable conditions.

## **INTERNAL CONTROLS OVER PERFORMANCE MEASURES**

Under OMB Bulletin No. 01-02, the definition of material weaknesses is extended to other controls as follows. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud, in amounts that would be material to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

Our consideration of the internal control over the design and operation of internal control over the existence and completeness assertions related to key performance measures would not necessarily disclose all matters involving the design and operation of the internal control over the existence and completeness assertions related to key performance measures that might be reportable conditions.

As required by OMB Bulletin No. 01-02 in our fiscal year 2005 audit, with respect to internal control related to performance measures determined by management to be key and reported in the Management Discussion and Analysis section, we obtained an understanding of the design of internal controls relating to the existence and completeness assertions and determined whether these internal controls had been placed in operation. We limited our testing to those controls necessary to test and report on the internal control over key performance measures in accordance with OMB Bulletin No. 01-02. However, our procedures were not designed to provide an opinion on internal control over reported performance measures and, accordingly, we do not provide an opinion thereon. In our fiscal year 2005 audit, we noted no matters involving the design and operation of the internal control over the existence and completeness assertions related to key performance measures that we considered to be material weaknesses as defined above.

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This report is intended solely for the information and use CSOSA's management, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

**KPMG LLP**

July 15, 2008

## MATERIAL WEAKNESSES

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### 1. IMPROVEMENTS ARE NEEDED IN THE FINANCIAL REPORTING PROCESS

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CSOSA consists of two major component programs, Community Supervision Program (CSP) and Pre-trial Services (PSA), with two separate accounting/finance departments. These departments record and track daily operations independently and prepare two separate sets of financial statements. The financial statements are then aggregated by CSP into CSOSA agency financial statements for reporting and disclosure purposes.

CSOSA's current processes used to prepare, analyze and provide management approval and oversight to financial reporting and financial statement development/maintenance need improvement in order to effectively and efficiently prepare and implement changes to its financial statements.

Specifically:

- CSOSA was initially unable to provide sufficient documentation for certain balances of the financial statements;
- CSOSA has limited agency-level policies and procedures for monitoring reviews related to financial reporting;
- Certain adjusting journal entries were not initially explained by CSOSA personnel or were found to be incorrect or incomplete;
- Communication between the two components of CSOSA, PSA and CSP regarding preparation of the financial statements needs improvement;
- Certain information provided by PSA did not flow through to the combined Agency-level financial statements accurately;
- Management level review over both individual component and combined Agency-level financial statements needs improvement;
- Allocation between Federal and Public transactions in the general ledger needs improvement to ensure accuracy of the financial statement allocations;
- Edit check procedures over financial statements and relationships between statements need to be documented; and the
- Crosswalk from trial balance to financial statements needs to be documented.

### RELATED NONCOMPLIANCE

Limited agency-level policies and procedures for monitoring reviews related to financial reporting and lack of documented procedures for edit checks and crosswalks contributed to noncompliance with the Federal accounting standards element of the *Federal Financial Management Improvement Act of 1996* (FFMIA).

**RECOMMENDATIONS:**

KPMG recommends CSOSA:

1. Consider obtaining additional financial reporting staff to allow for appropriate separation of duties and depth of financial personnel;
2. Conduct an assessment of the current financial reporting process, document the process and implement appropriate internal controls in order to reduce complex and manual procedures where feasible.
3. Build a closer working relationship between its two major component programs to ensure accurate information is presented in the financial statements for the areas of financial statement consolidation, preparation, disclosure, and presentation.
4. Consider forming an agency-level oversight committee, comprised of members of each component, to review the accuracy and completeness of the financial statements and footnote disclosures at the combined agency level before issuance, and to track the progress towards meeting OMB's reporting deadlines.
5. Implement a formalized review and approval policy regarding journal vouchers, including required supporting documentation and supervisory approval of every adjusting entry made as part of the financial reporting process.

**MANAGEMENT RESPONSE**

CSOSA concurs with this finding. CSOSA will develop and implement agency-wide policies and procedures governing the preparation of quarterly and annual financial statement, including the review and approval of journal vouchers.

***Budgetary Resources***

As a result of our fiscal year (FY) 2005 internal control and substantive testing procedures over budget execution we noted that the initial reconciliation of the CSOSA's FY 2005 Statement of Budgetary Resources (SBR) to the Budget of the United States Government included certain inaccurate and unsupported U.S. Budget line amounts.

- Differences between the Statement of Budgetary Resources and the SF-133 in FY 2005 by caption were:
  - Total Budgetary Resources - \$2,423,052
  - Total Status of Budgetary Resources - \$2,423,052
  - Total Net Outlays - \$4,331,226
- Differences in the presentation of the Budgetary Resources and the Status of Budgetary Resources in the SBR, and the amounts recorded in FACTS II transactions for the SF 133; Report on Budget Execution and Budgetary Resources and the Budget of the United States Government.

If documentation is not readily available and appropriate documentation is not maintained there is a risk of error in the financial statements. By not reviewing U.S. Department of Justice's Justice Management Division's (JMD) activities, CSOSA could overlook potential misstatements in the combined Agency-level financial statements.

**RELATED NONCOMPLIANCE**

Lack of adequate controls over reconciliations over budgetary resources contributed to noncompliance with the Federal accounting standards element of FFMIA.

**RECOMMENDATION:**

KPMG recommends CSOSA:

1. Implement policies and procedures to ensure that the amounts reported in FACTS II are consistent with the amounts in the general ledger and reported in the SBR.
2. Review and obtain supporting documentation for all entries JMD provides, and implement a formal monitoring control over these activities.

**MANAGEMENT RESPONSE**

CSOSA has made repeated requests to DOJ/JMD that they provide draft copies of the SF-133 prior to submitting it in FACTS II. DOJ/JMD continues to provide copies of the SF-133 after submitting it in FACTS II, preventing CSOSA from reviewing and making corrections.

CSOSA did not make manual adjusting entries in the general ledger based on adjustments made by DOJ/JMD to the SF-133/FACTS II because we were not provided supporting documentation and we could not substantiate these adjustments. CSOSA also asked DOJ/JMD that these manual adjustments be made, after our review, in FMIS so that our general ledger would reflect what was submitted for the SF-133. DOJ/JMD would not make these manual adjustments into FMIS.

In addition, manual changes to FY 2005 and FY 2006 obligation balances required due to audit testing, occurred after final SF-133 balances were reported.

Effective Fourth Quarter FY 2007, CSOSA records our own information in FACTS II based on GL information reported from our new financial system, Oracle Federal Financials.

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**2. IMPROVEMENTS ARE NEEDED IN FINANCIAL ACCOUNTING CONTROL ACTIVITIES**


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CSOSA's processes to account for certain general ledger activity needs improvement. As described below, certain accruals, capitalization accounts, and general ledger errors existed, and required correction in the financial statements and related supporting documentation.

***Undelivered Orders / Accounts Payable***

Statement of Federal Financial Accounting Standards (SFFAS) No. 5, Accounting for Liabilities of the Federal Government and Statement of Federal Financial Accounting Standards No. 1: Accounting for Selected Assets and Liabilities, describe the requirement to properly account for certain budgetary and proprietary accounts.

As a result of our testwork we noted improvements are needed in internal controls related to the status and valuation of accounts payable and undelivered orders.

Specifically, we noted obligations that contained: a) status or dollar errors (were partially or fully misclassified as either undelivered or accounts payable), b) obligations that were stale (remained open although all services had been fully performed and billed), and c) obligations that were duplicates

(multiple obligations were entered into the general ledger for the same procurement action). The results of our testwork on (a) status or dollar error type obligations are summarized below:

<u>Obligation Type</u>	<u>No. of Status/Dollar Errors in Sample</u>	<u>Total No. of obligations in sample</u>	<u>Absolute Dollar Value of Sample Status/Dollar Errors</u>
	<b>FY 2005</b>	<b>FY 2005</b>	<b>FY 2005</b>
<b>CSP Undelivered</b>	31	92	\$2,429,966
<b>PSA Undelivered</b>	13	31	\$373,119
<b>Total Undelivered</b>	<b>44</b>	<b>123</b>	<b>\$2,803,085</b>
<b>CSP Accounts Payable</b>	19	83	\$1,277,121
<b>PSA Accounts Payable</b>	3	39	\$35,071
<b>Total Accounts Payable</b>	<b>22</b>	<b>122</b>	<b>\$1,312,192</b>

Based on our statistical projections, the September 30, 2005 financial statements prepared based on undelivered and delivered amounts recorded in the general ledger would be misstated as follows:

**UDO:**

CSP \$3,119,601 Overstatement

PSA \$443,987 Overstatement

**Accounts Payable:**

CSP \$1,447,804 Overstatement

PSA \$2,658 Overstatement

KPMG notes that CSP conducted an independent analysis over these findings and made correcting entries to the financial statements to properly account for the balances.

**RELATED NONCOMPLIANCE**

Lack of adequate controls over monitoring of obligations contributed to noncompliance with the Federal accounting standards element of FFMIA.

**RECOMMENDATIONS:**

KPMG recommends both CSP and PSA:

1. Emphasize the importance of correctly classifying obligations as delivered and undelivered throughout the fiscal year. This communication should include explanation and training on proper authorization, recordation, and retention of undelivered and delivered order documentation. This communication should be made to appropriate staff and supervisors.
2. Implement policies and procedures regarding timely recording of goods and services received by the requesting department. This should include timely communication to the appropriate

staff to allow for the accurate recording of transactions in the general ledger as the status of transactions change from undelivered orders to accounts payable.

3. Implement or revise procedures to require periodic reviews (at least quarterly) of all open obligations. This should include reviewing open obligations and the related supporting documentation to ensure obligations are correctly classified, documentation supports calculations of undelivered and delivered amounts recorded in the general ledger, and appropriate adjustments are made to de-obligate expired obligations.
4. Implement or revise supervisory review procedures to ensure detailed obligation reviews are performed throughout the fiscal year, allowing management to make corrections timely. Management should consider periodically selecting samples of obligations to verify that open obligation reviews are being performed and are working effectively by recalculating undelivered and delivered amounts based on a review of the supporting documentation. This would allow for identification of obligations where errors have not been detected and corrected by the periodic review process. When the sources or causes of the errors are identified, management should communicate the cause of the error to the appropriate individuals.
5. Implement or revise procedures to ensure that accruals are correctly and consistently applied to all obligations for which the receipt of goods or services needs to be estimated and actual amounts are adjusted for and appropriately recorded.

#### **MANAGEMENT RESPONSE**

CSOSA concurs with the finding related to CSP/PSA obligation status and classification operations and procedures while using the Department of Justice (DOJ) FMIS2 system for FYs 2005 and 2006. CSP and PSA migrated to an approved financial Shared Services Provider (Department of Interior's National Business Center) and financial management system (Oracle Federal Financials) effective July 2007. The DOJ/FMIS2 system does not provide effective, obligation classification operational capabilities and reporting. The Oracle system provides decentralized, integrated goods and services receipt (and estimate) capabilities and improved obligation classification reporting. CSP and PSA plan to use these enhanced system capabilities, combined with formal review procedures and user training, to improve the timeliness and accuracy of obligation status information.

During 2006 PSA de-obligated approximately 75 percent of its stale obligations.

#### ***Payroll***

As noted above, CSOSA is comprised of two major components, CSP and PSA. Each of the two components separately maintains the Human Resources (HR) records of its employees, although both components utilize the National Finance Center (NFC) to process payroll and personnel actions. Personnel actions include the processing of new hires, department relocations, separations, adjustments, and promotions. CSP's and PSA's HR departments use the Entry Processing Inquiry and Correction System (EPIC) application to access the NFC database for personnel actions, and the System Time and Attendance Reporting (STAR) system to process time and attendance for payroll.

Improvement is needed in CSP's internal controls over the HR processes, specifically relating to documentation of the initiation and authorization of Personnel Actions and Time and Attendance (T&A) Reporting, to ensure that HR information is authorized and accurately input into the NFCs' data system.

Our FY 2005 testwork identified the following exceptions:

- 4 instances out of 105 personnel actions tested where there was no SF-50 (*Notification of Personnel Action*) included in the employee OPF, and therefore no evidence of reconciliation with the SF-52 or equivalent;
- 3 instances out of 17 T&A's tested where the employee's request for leave was not documented as authorized and approved by a supervisor prior to the employee taking leave;
- 4 instances out of 17 T&A's tested where the timekeeper or supervisor or employee did not sign or initial the T&A report to certify the validity and accuracy of the report.

**RECOMMENDATIONS:**

KPMG recommends CSP:

1. Conduct policies and procedures training with staff responsible for submission and/or oversight of T&A information.
2. Conduct policies and procedures training with Office of Human Resources staff who are responsible for OPF's, and perform periodic policy compliance audits of OPF's.

**MANAGEMENT RESPONSE:**

The Office of Human Resources (OHR) will conduct quarterly audits to ensure that all T&A procedures are properly followed. Additionally, OHR staff will conduct T&A training for all timekeepers twice a year to ensure that they are following all T&A procedures.

The OHR staff will also be required to audit each OPF when processing a personnel action on an employee; they will also be required to audit all OPFs that come into the agency and OPFs of all separating employees. Additionally, an audit will be conducted on a random set of OPFs quarterly.



***Property, Plant and Equipment***

SFFAS No. 6, Accounting for Property, Plant, and Equipment requires that property meeting certain criteria be capitalized and depreciated over its useful life.

As a result of our testwork we noted improvements are needed in controls over tracking, recording and reporting of capitalized property.

Specifically:

- CSP needs improvement in policies and procedures to track, manage and report capitalized property in the financial statements.
- CSP was unable to provide formal, system reports to support capitalized equipment, leasehold improvements, and internal use software additions and deletions for FY 2005. CSP uses cuff records to track these items.
- During our 2005 CSP procurement testwork we identified 26 Document Control Number's (DCN) related to property, leasehold improvements, internal use software, and we identified 12 instances where the incorrect Sub-Object Code (SOC) was used.

**RELATED NONCOMPLIANCE**

Lack of adequate monitoring of property, plant and equipment and no formal system implemented to track additions or deletions to flow through to the financial statements contributed to noncompliance with the Federal accounting standards element of FFMIA.

**RECOMMENDATIONS:**

KPMG recommends CSP:

1. Develop and implement a formal policy or procedure that addresses the need to adequately record all purchases that meet the capitalization criteria set forth by the CSP Personal Property Management Policy.
2. Develop a formal and systematic method of accumulating both direct and indirect costs (e.g. labor and hardware) incurred for the development of its project systems. To support this tracking of internal use software costs, CSP should also ensure it retains adequate documentation supporting these capitalized costs.
3. Implement a tracking system for all capitalized and accountable property providing a link between property management and the financial statements. This would aid the Agency in completely and accurately accounting for capitalized property, leasehold improvements and internal use software.

**MANAGEMENT RESPONSE**

CSP migrated to an approved financial Shared Services Provider (Department of Interior's National Business Center) and financial management system (Oracle Federal Financials) effective July 2007. The DOJ/FMIS2 system does not provide integrated asset management capabilities. CSP used the Barscan system to track and control assets. Oracle provides integrated asset management capabilities.

CSP issued Accounting for Leasehold Improvement Policy (PS 5202) in February 2007. Draft Policies for Internal Use Software Capitalization and Personal Property Management are pending approval.

***Grants Management***

SFFAS No. 7, Accounting for Revenue and Other Financing Sources describes the requirement for accounting for grants and related grant accruals.

As a result of our testwork we identified errors that existed in the calculation and classification of Advances From Others, Unfilled Customer Orders, Accounts Receivable and Transfers-In.

**Advances From Others** - CSP receives funding from the Department of Justice's Office of Justice Programs in advance for services performed for the Weed and Seed (W&S) and Project Safe Neighborhood (PSN) grants. CSP incorrectly calculated the advance balance by not deducting payments paid to sub-recipients.

**Unfilled Customer Orders (UFO)** - CSP incorrectly recorded the advances for the W&S and PSN grants as UFO without advance. CSP should record the total amount of unearned reimbursable orders as UFO with advance.

**Unexpended Appropriations Used and Expended Appropriations** - The funding used to pay the sub-recipients for the OJP grants is recognized as expended appropriations.

In addition, we noted services performed as of September 30, 2005 by the sub-recipients that were not sufficiently accrued. The accrual or the estimate of services for the fiscal year should have been included as a deduction to these balances.

The following financial statement line items were initially misstated due to the improper accounting and monitoring of grant transactions, and were corrected in the financial statements:

- Advances From Others - overstated by \$937,760.
- Unfilled Customer Orders with Advance – understated by \$632,564.
- Unfilled Customer Orders without Advance - overstated by \$632,564.
- Unexpended Appropriations-Used - overstated by \$937,760.
- Operating Expenses/Program Costs – overstated by \$937,760

**RELATED NONCOMPLIANCE**

Lack of system controls to appropriately record grant transactions contributed to noncompliance with the Federal accounting standards element of FFMIA.

**RECOMMENDATIONS:**

KPMG recommends CSP establish and implement policies and procedures to ensure the appropriate accounting treatment of grant transactions. CSP should also develop and implement an effective program for monitoring sub-recipient activity to accrue for any unbilled services.

**MANAGEMENT RESPONSE**

The DOJ/FMIS2 system does not have automated grants accounting capabilities, requiring manual adjustments by CSPA staff to properly record and classify all grant account balances.

CSP migrated to an approved financial Shared Services Provider (Department of Interior's National Business Center) and financial management system (Oracle Federal Financials) effective July 2007. Oracle provides improved grants accounting; however manual adjustments by CSP staff will still be required.

CSP will continue to work to improve grants accounting procedures, including documenting the manual adjustment procedures and working with grantees to improve the timeliness of the SF-269 (Financial Status Report) submissions used to accrue for unbilled services. CSP currently suspends grant participating for grantees that do not meet requirements, such as SF-269 submissions.

**REPORTABLE CONDITIONS**

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**3. IMPROVEMENTS ARE NEEDED IN FMIS2 SECURITY PLANNING AND CONTROL ACTIVITIES**

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In the FY 2004 Performance and Accountability Report, the auditors reported that control improvements were needed in the FMIS2 accounting system, but that the reportable condition and related recommendations would be addressed to the Justice Management Division of the Offices, Boards and Divisions (OBDs) within the Department of Justice (DOJ), which is where the system resides.

In FY 2005, the OBDs management of access control for FMIS2 lacked effective controls. Specifically, the following weaknesses were identified:

- Multiple and/or duplicate FMIS2 user accounts were identified without justification.
- FMIS2 user accounts do not undergo annual recertification.

We verified that corrective action was implemented prior to the end of fiscal year 2006. Therefore, a recommendation is not being provided and no further action is required.

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**4. SERVICE CONTINUITY IMPROVEMENTS ARE NEEDED**

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In the FY 2004 Performance and Accountability Report, auditors reported that CSOSA's plans for maintaining continuity of operations needed to be completed and fully tested. As of the time of prior-year audit follow-up review, CSOSA had not tested but had developed and formally adopted a Continuity of Operations Plan (COOP). CSOSA created an office for COOP under the agency Director of Security. CSOSA instituted systems backup procedures, and began implementing a "hot alternate site" for CSOSA's mission critical systems. However, because the agency COOP has not been tested and the alternate IT hot site is not operational, this condition existed for FY 2005.

**RECOMMENDATIONS:**

We recommend that CSOSA:

- Continue to develop and implement the agency COOP Test Plan.
- Continue to establish and test operations at the Alternative IT Hot Site.

We verified that corrective action was implemented prior to the end of fiscal year 2006. Therefore, a recommendation is not being provided and no further action is required.

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**5. CHANGE CONTROL IMPROVEMENTS ARE NEEDED**

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In the FY 2004 Performance and Accountability Report, auditors reported that CSOSA had not fully developed a formal System Development Life Cycle (SDLC) and Change Control Plan to ensure that system changes are properly requested, authorized, documented, tested, and migrated into production.

**RECOMMENDATIONS:**

We recommend that CSOSA maintain their SDLC methodology and change management policy, and ensure that their data and system owners adhere to the processes and procedures set forth.

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**6. CONTROLS SURROUNDING SECURITY PLANNING NEED IMPROVEMENT**

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In the FY 2004 Performance and Accountability Report, auditors reported that CSOSA's information security program weaknesses exposed key elements of CSOSA's networks, financial applications, and general support systems to unauthorized access and/or modification of sensitive data. In particular, weaknesses included incomplete risk assessments and no formal Authority to Operate (ATO), poor monitoring and enforcement of system access, and ineffective communication of security-related responsibilities to data owners and system administrators.

In FY 2005, CSOSA had not fully implemented an information security program, but had created a security plan and expanded the scope of risk assessment to include all of the controls of NIST Special Publication (SP) 800-53, including risk assessment, a formal certification and accreditation process, a formal access control and monitoring policy, procedures, and enabling technologies, and staff technical security training. An Interim ATO (IATO) was issued in 2005, but with several weaknesses identified as requiring remediation prior to full ATO.

**RECOMMENDATIONS:**

We recommend that CSOSA continue to implement their C&A program in accordance with NIST SP 800-53.

### Status of Prior Years' Findings and Recommendations

As required by *Government Auditing Standards* issued by the Comptroller General of the United States, and by OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, we have reviewed the status of prior year findings and recommendations. The following table provides our assessment of the progress CSOSA has made in correcting the material weaknesses and reportable conditions identified during these audits. We also provide the fiscal year it was identified, our recommendation for improvement, and the status of the condition as of the date of this audit report July 15, 2008:

Year	Material Weakness or Reportable Condition	Recommendation	Status
2002	Reportable Condition: Improvements are needed in the recordation of delivered and undelivered orders.	The CSOSA should monitor the status of obligations and adjust the status of obligations between undelivered and delivered orders as goods or services are received.	In Process, see Exhibit I.
2004	<i>Material Weakness: Improvement needed in control activities over financial accounting.</i>	CSP develop and implement a formal policy or procedure that addresses the need to adequately record all purchases that meet the capitalization criteria set forth by the CSP Personal Property Management Policy.	In Process, see Exhibit I.
2004		CSP develop and implement formal policy (e.g. CSP Personal Property Management Policy) and procedures addressing the need to adequately capture and correctly report all purchases that meet the capitalization criteria for leasehold improvements.	In Process, see Exhibit I.

Year	Material Weakness or Reportable Condition	Recommendation	Status
2004		<p>CSP and PSA implement a formal and systematic method of accumulating both direct and indirect costs (e.g. labor and hardware) incurred for the development of its project systems. The IT management and financial management personnel should work closely to develop a method of properly tracking costs and for determining whether the costs should be capitalized or expensed. Financial management needs to be made aware of the development and implementation plan of systems that may exceed the \$500,000 threshold of capitalization established by both CSP and PSA. Furthermore, financial management should communicate the capitalization requirements for internal use software to the IT management to educate the program managers on the accounting standard and ensure proper accumulation of costs. To support this tracking of internal use software costs, CSP and PSA should also ensure it retains adequate documentation supporting these capitalized costs.</p>	Open, see Exhibit I.
2004		<p>CSP and PSA emphasize the importance of correctly classifying obligations as delivered and undelivered throughout the fiscal year. This communication should include explanation and training of what should be recorded as undelivered and delivered orders. This communication should be made to all levels of management to ensure those recording transactions, as well as those reviewing them, fully understand Federal accounting requirements.</p>	Open, see Exhibit I.

Year	Material Weakness or Reportable Condition	Recommendation	Status
		CSP and PSA implement or revise procedures to require periodic reviews (no less than quarterly) of all open obligations. This should include reviewing open obligations and the related supporting documentation to ensure obligations are correctly classified, documentation supports calculations of undelivered and delivered amounts recorded in the general ledger, and appropriate adjustments are made to deobligate expired obligations.	Open, see Exhibit I.
2004		CSP and PSA implement or revise supervisory review procedures to ensure detailed obligation reviews are followed throughout the fiscal year, allowing management to correct problems on a timely basis. Management should periodically select samples of obligations and verify open obligation reviews are working effectively by recalculating undelivered and delivered amounts based on supporting documentation.  This would allow early identification of types of obligations where errors are not detected and corrected by the review process. When the sources or causes of the errors are identified, management should communicate the cause of the error to the appropriate individuals.	Open, see Exhibit I.
2004		CSP establish and implement policies and procedures that are consistent with generally accepted accounting principles to ensure the appropriate accounting treatment of grant transactions. CSP should also develop a policy for monitoring sub-recipient activity and implement an effective monitoring program. This will help ensure CSP is properly accruing for any unbilled services.	Open, see Exhibit I.



**EXHIBIT III**

<b>Year</b>	<b>Material Weakness or Reportable Condition</b>	<b>Recommendation</b>	<b>Status</b>
2004		CSP and PSA should review all services JMD provides to them, and identify a formal monitoring control over these activities.	Open, see Exhibit I.
2004	<i>Material Weakness: Improvement needed in the financial reporting process.</i>	CSP develop and implement policies and procedures requiring appropriate documentation be retained in a secure location to support its performance measure information.	Closed
		CSOSA should build a closer working relationship between its two major component programs to ensure accurate information is presented in the financial statements for the areas of financial statement consolidation, preparation, disclosure, and presentation. Also, a formalized policy needs to be implemented regarding journal vouchers, including required supporting documentation and supervisory approval of every adjusting entry made as part of the financial reporting process. In addition, a supervisory review of the accuracy and completeness of the financial statements is needed to track the progress in meeting OMB deadlines. A higher degree of coordination between the groups would reduce the substantive effort that is needed to reconcile the differences identified.	Open, see Exhibit I.

**EXHIBIT III**

<b>Year</b>	<b>Material Weakness or Reportable Condition</b>	<b>Recommendation</b>	<b>Status</b>
2004	<i>Reportable Condition: Plans for maintaining continuity of operations need to be completed and fully tested.</i>	<p>CSOSA establish a completion date for CSOSA IT DRP component of agency's contingency plan.</p> <p>CSOSA periodically test the IT Continuity Plan. Based on the test results, determine if an alternate processing facility is needed for the restoration of both CSP and PSA systems.</p> <p>CSOSA routinely rotate backup tapes off-site to a secured location.</p>	In Process, see Exhibit II.
2004	<i>Reportable Condition: Improvement needed in Controls over Information Security.</i>	<p>CSOSA assign specific resources for developing, documenting, approving, and implementing an agency-wide system security program that, at a minimum, follows the guidelines and standards prescribed by OMB Circular A-130 and NIST 8000-18.</p> <p>CSOSA develop enforcement mechanisms to ensure that all users comply with the agency-wide information security program, as well as consistently enforce policies and procedures for logical access to information resources that are based on the concepts of "least possible privilege."</p>	Open, see Exhibit II.

Year	Material Weakness or Reportable Condition	Recommendation	Status
2004	<p><i>Reportable Condition:</i></p> <p><i>Need improvement in system change control procedures for applications and system software.</i></p>	<p>CSOSA assign specific resources for update, finalize, and implement a CSOSA-wide system development and change control policies and procedures for all application and system software changes.</p> <p>CSOSA develop and implement a policy requiring personnel to maintain complete and proper documentation evidencing the completion of system changes.</p> <p>CSOSA develop a process to ensure that their data and system owners adhere to the system development and change control policies and procedures.</p>	Open, see Exhibit II.
2004	<p><i>Reportable Condition:</i></p> <p><i>Control Improvements needed in the FMIS2 accounting system.</i></p>	<p>This reportable condition is described in CSOSA's fiscal year 2004 audit report because it relies on FMIS2 as its core financial management system. This reportable condition and related recommendations were addressed to the Justice Management Division of the OBDs, which has primary responsibility over FMIS2, in its <i>Independent Auditors' Report on Internal Controls over Financial Reporting</i>. Accordingly, no recommendations for this reportable condition were addressed to CSOSA management.</p>	Closed.